Stock Market Review

Important developments disclosed in recent Interim Directors' Statements

Edward Rizzo

Edward Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

The second week of November is an important time in the local financial calendar as the majority of companies publish their Interim Directors' Statements in accordance with Chapter 5 of the Listing Rules issued by the Malta Financial Services Authority.

In fact, Listing Rules 5.86 to 5.88 stipulate that companies must issue such statements twice a year. The first statement must be issued not later than six weeks prior to the half-year end and another announcement must be published not later than six weeks before the end of the financial year. The rationale behind this requirement is to provide the market with an update of the company's financial position and other important developments since the last publication of their semi-annual financial statements.

As such, companies with a December year-end had until a few days ago to report on any key events that took place since the June half year-end. Sixteen of the 22 companies that have their equity listed on the Malta Stock Exchange have their financial year running from January 1 to December 31 and as a result, all these companies have complied with this requirement and issued their statements in recent weeks with the majority coming through in the past few days.

This reporting requirement came into force in 2007 and initially these Interim Directors' Statements were very brief, providing little value to shareholders and other market participants. However, in recent years, some companies began to understand the importance of regular and detailed communications to the market and the Interim Statements became more meaningful.

Two companies in particular, namely Crimsonwing plc and Grand Harbour Marina plc, also took the initiative some time ago of using such regulatory announcements to provide key financial figures such as revenue and EBITDA. They now report their Q1 figures in their first Interim Statement and the financial highlights for the nine-month period in the second announcement before the closure of their financial year.

A few of the Interim Directors' Statements published in recent days contained some important developments. On November 8, International Hotel Investments plc issued its Interim Statement providing more details than usual.

The Corinthia Group subsidiary also embarked on an initiative similar to Crimsonwing and Grand Harbour Marina by publishing some key headline figures for the nine months ended September 30, 2013.

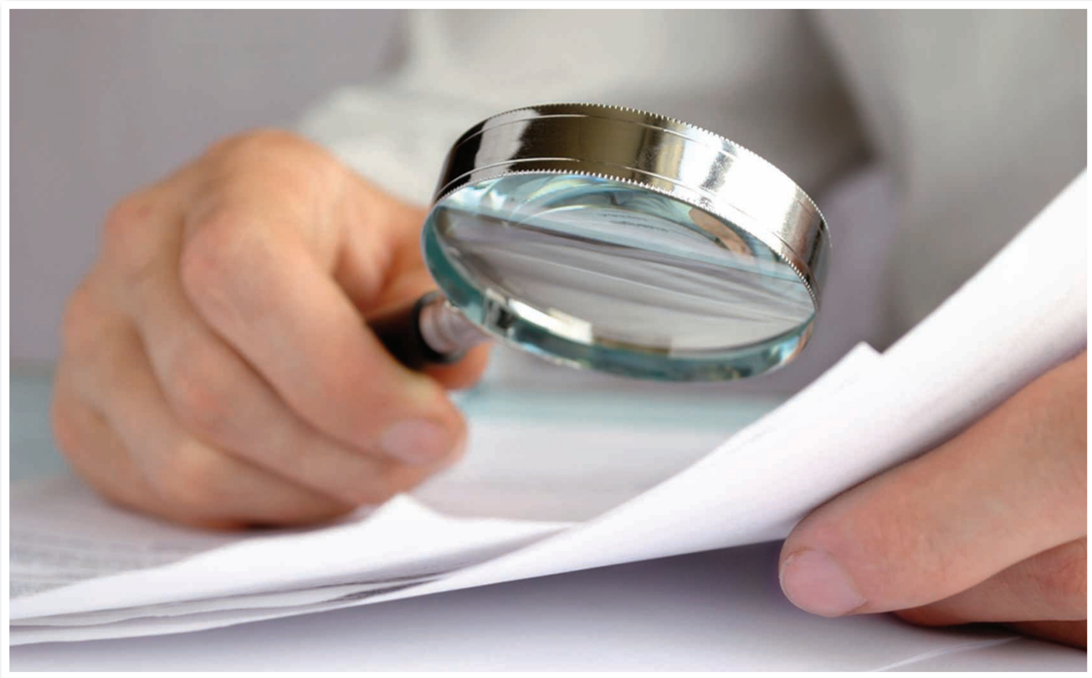
In fact, IHI reported that hotel revenues (excluding Corinthia Hotel London) increased by 6.5 per cent to €83.8 million and the gross operating profit grew by 10.8 per cent to €24.7 million. An improved performance was also registered in the operations of Corinthia Hotel London, which is a 50 per cent owned associate, with revenue up by 10.9 per cent to €38.7 million and gross operating profit jumping by 61.4 per cent to €11.3 million.

Likewise, the non-hotel properties owned by IHI (namely the commercial centres in St Petersburg and Tripoli) registered a €1.5 million growth in income to €8.1 million.

Although this did not immediately translate into higher trading volumes in IHI shares, support for the equity very evidently increased since the publication of this Interim Statement with various new bids entering the market at €0.75 and slightly above this level. In fact, bids totalling 65,979 shares remain unsatisfied within a tight range of €0.75 to €0.77 and lowest offers in the market only at the €0.85 level.

The Interim Statement by RS2 Software plc of last Thursday was also more detailed and informative than previous announcements. RS2 claimed that it "is in intensive and advanced negotiations to conclude various agreements with new clients". RS2 also stated that it is "expanding the relationship with existing clients by negotiating additional licensing and services agreements. These agreements are expected to be concluded and signed in the early months of 2014".

> **In recent years, some companies began to understand the importance of regular and detailed communications to the market**



As expected, this clear guidance resulted in the share price touching new highs as the positive outlook generated further demand for this equity despite the extraordinary rally over the past 12 months. The share price of RS2 initially advanced by a further 3.5 per cent to a new all-time high of €2.38 last Monday with the market capitalisation of the company surpassing the €100 million level. However, the equity then eased back to €2.30.

Another company which provided some important information on its immediate outlook is Malta International Airport plc.

The airport operator stated that it expects "improved traffic results for the final two months of the year" following the 9.9 per cent passenger growth during the 9-month period between January and September 2013. If MIA were to maintain the same passenger volumes in the final two months of 2013 as those registered in November and December 2012, a total of 3.97 million passengers would have passed through the terminal representing a growth rate of 8.8 per cent from last year's record levels. This is significantly above the latest forecast by the company in August 2013 of an expected growth of 6.7 per cent for the year.

Additionally, MIA confirmed that passenger movements should exceed 3.9 million and also claimed that they expect an improvement for the final two months of the year which should enable the company to come very close to the important level of four million passenger movements.

In fact, the Interim Statement also highlighted that the 2013 financial statements will show an improvement over 2012 and these will also be above the company's projections at the start of the year. In 2012, MIA registered pre-tax profits of €19.5 million and following this announcement, shareholders now eagerly await the publication of the 2013 full-year financial statements during the first quarter of 2014 and the directors' recommendation regarding the final dividend for approval at the forthcoming Annual General Meeting.

6pm Holdings plc also provided the market with a very comprehensive Interim Statement last week.

The IT company confirmed that it continued to register profits on a monthly basis and it also highlighted that the directors aim to again recommend the payment of a dividend to shareholders during the 2014 Annual General Meeting.

Furthermore, 6pm provided an update on new contracts being awarded to them as well as other contracts which are still under negotiation. The company also highlighted the fact that the new strategic plan for the period 2014-2016 which was recently approved by the Board of Directors aims to achieve more profitability, increased annuity business and a wider market presence. The share price reacted positively with a rise of 15.9 per cent to a new multi-year high of GBP0.701.

Although MIDI plc again confirmed that it will incur losses for the current financial year ending on December 31, the company reported that so far, it has entered into 31 promise of sale agreements with prospective owners following the recent launch of the new 39 Q1 apartments currently under construction. Notwithstanding this very welcome news for shareholders, the total value of these sales amounting to €30.8 million will not show up either in the financial statements of 2013 or of those in 2014 since in accordance with accounting standards, they are taken into account once the property is completed and handed over to the new owners. This is envisaged to take place in early 2015.

The strong take-up of the new properties on offer also provides evidence of the sustained demand for high quality residential developments. In fact, MIDI reported that it is looking forward to the development of its final block of 64 residential apartments on Tigne Point.

Medserv plc also announced some key developments in its Interim Directors' Statement. It was revealed that the fully owned subsidiary Medserv Operations Ltd is securing a further 30,000 sq.m. of land to enlarge the yard facility in Malta to allow the company to meet the expected increase in business.

Moreover, a change in the shareholding structure in the subsidiary responsible for the Cypriot base was also reported.

Medserv first acquired the remaining 45 per cent equity stake of the previous minority shareholders and subsequently sold a 20 per cent shareholding to their new partners Caramondani Bros Public Co Ltd. The Cypriot subsidiary, now 80 per cent owned by Medserv, also submitted its first tender to an international oil company.

Medserv also reported that its overall outlook remains positive and the volume of business continued to improve leading to a growth in both revenue and profitability. In the documentation published in connection with the recent Debt Issuance Programme, the 2013 financial projections revealed an estimated pre-tax profit of €0.97 million for the Medserv Group.

Financial markets thrive on regular news flow. As such, detailed announcements and other press releases issued by listed companies stimulate trading activity and help to maintain strong investor interest.